

Standing Committee Report Summary

Allocation and pricing of natural gas

- The Standing Committee on Petroleum and Natural Gas (Chairman: Mr. Aruna Kumar Vundavalli) presented its 19th report on allocation and pricing of natural gas on December 10, 2013.
- The Committee noted the widening gap between demand and production of gas. It was concerned that the infrastructure may not be sufficient to meet the rising need for Liquefied Natural Gas (LNG) imports.
- The Committee desired that the Ministry of Petroleum and Natural Gas (MoPNG) should prepare a blue print to improve the production and supply of natural gas in the country. The MoPNG should award more blocks for exploration, expedite pipelines from neighbouring regions, sign long term contracts for imports and promote non-conventional gas sources like shale gas.
- Noting that gas allocations for 2012-13 were more than double the projected production, the Committee recommended that allocations should not exceed production by more than 10%.
- The Committee noted low availability of gas for the power sector and asked the government to provide clarity on availability of gas for power sector in the next five to ten years.
- The Committee opined that expansion of the City Gas Distribution (CGD) network will benefit a wider section of society. It recommended that the CGD networks be allocated a higher share of gas.
- The Committee expressed unhappiness over decline in gas production from the KG-D6 block. Taking note of the MoPNG's assertions of the contractor's non-adherence to the regulator's suggestions, it advised that the MoPNG base its remedial action on a 'default' by the contractor (instead of a 'failure').
- The Committee recommended supplying at least 50% of the gas produced to the users located in the producing state. It also suggested that the MoPNG devise a policy for sharing the royalty from offshore fields with the concerned state government.
- The MoPNG has been supplying gas to industrial units in Taj Trapezium Area near Agra, at low prices, following a Supreme Court order. The Committee asked the MoPNG to ensure gas supply to units located outside this area at competitive prices, to check the mushrooming of industries in this area.
- The Rangarajan Committee has recommended a new revenue sharing model, new pricing formula and tax holidays for gas produced through the Production Sharing Contract mechanism. The Committee concurred with the Ministry of Finance's observations against inclusion of high Japanese LNG import prices and spot well-head prices in the new pricing formula.
- The Committee desired inclusion of Russian gas prices and domestic cost of gas production in the new pricing formula. It cautioned against denominating the price of gas in US Dollars rather than Rupees.
- The Committee felt that as the Rangarajan Committee recommendations, especially the new pricing formula, have wide ramifications, they need to be examined in greater detail before any decision is taken.
- The Committee was unimpressed with the government's strategy of using higher gas price to incentivise domestic production as well as meet the demand at reasonable cost. It recommended a thorough review of the price-led growth strategy.
- The Committee recommended that the impact on user industries like fertiliser, power, etc., including their viability and government subsidies, should be considered while moving to market-linked gas prices.
- The Committee desired that the MoPNG consider pooling of the entire gas production and then allocate it to the users at a uniform price.

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